

LatAm Daily | The growth in economic activity in Mexico was higher than expected in May

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IGAE grew by 1.0% sa m/m, thanks to the services sector (1.2% m/m, sa). A small (even slightly negative) growth in economic activity is expected for Mexico in 2Q16. In Brazil, the minutes of last week's MP meeting showed concerns about inflation, which still prevent a cut of the Selic rate. Also in Brazil, the CA deficit remained stable at around 1.7% of GDP in June.

Brazil - The COPOM is still concerned about inflation

The minutes of last week's monetary policy meeting in which the Selic rate was left unchanged at 14.25% show that the COPOM sees advances regarding the prospects for disinflation. However, its main concerns reside in the fact that markets continue to expect inflation to be above the 4.5% target at the end of the next year (the market consensus for the period is currently at 5.3%), as well as that COPOM's alternative scenario for inflation, which takes market consensus for the exchange and the policy rates as inputs for its model, continues to show inflation above the aforementioned target, also around 5.3% (in its baseline scenario, in which both exchange and interest rates are assumed to be constant at the current levels, the COPOM forecasts inflation to converge to 4.5% by the end of the next year). Thus, the minutes reveal that the monetary authority is still not comfortable with the prospects for inflation. In practice, this suggests that the Selic rate will remain at 14.25% for some further time, until the beginning of 2017 in our view, when we expect market forecasts and all COPOM's forecasts for inflation for the end of 2017 to be close to 4.5%. However, as highlighted in the minutes, if there are positive surprises regarding the implementation of the fiscal adjustment by the government, then there may be an earlier cut to the Selic rate (for more details, see our [Brazil Flash](#)).

Brazil - The current account deficit remained stable at around 1.7% of GDP in June

After displaying small surpluses in the last two months, the current account produced a USD2.5bn deficit in June, similar to the recorded in the same month last year. As a consequence, the current account now accumulates a 1.7% of GDP (or USD29bn) deficit in the last twelve months, unchanged in comparison to May, but well-below the levels of some months ago (4.4% of GDP in June 2015 and 3.3% of GDP in December 2015, for example). The stability of the 12-month deficit in comparison to May suggests that most of the external adjustment is already behind us and that improvements in the remainder of the year will not be as sizable as that recently observed. The perception that the worst in terms of economic growth is already over and the appreciation of the exchange rate in recent months support this view. More precisely, we expect the current account deficit to improve slightly over the next few months and close the year at around 1.3% of GDP (or USD23bn).

Mexico - May's monthly economic activity index (IGAE) grew 1.0% m/m, sa

In May 2016 IGAE's monthly growth rate was 1.0%, well above our expectation. The main driver of this positive performance was the growth of the Services Sector (1.2% m/m, sa), followed by a more moderate growth of the Industrial Sector (0.3% m/m, sa) and by a contraction of the Primary Sector (-3.1% m/m, sa). Note that the monthly growth rate of IGAE in May of 1.0% is not enough to compensate the monthly contraction of -1.2% this indicator showed in April 2016. This means that although IGAE's monthly rate of growth for June may produce a positive result, the overall performance of IGAE in 2Q16 will result in a limited and even slightly negative rate of growth of Mexico's GDP during 2Q16.

What to watch today

Brazil - Credit markets report (June, 9:30hrs NYT)

We expect the negative trends in credit markets to have continued in June. Therefore, we expect the slowdown in credit stock to continue and for non-performing loans to continue to increase in the period.

Calendar indicators

	Date	Period	Consensus	BBVAe	Actual	Prior
Brazil						
Tax Collections	22jul - 25jul	Jun	98327		95218.71	95219m
Formal Job Creation Total	22jul - 25jul	Jun	-58700		-72615	-72615
FGV CPI IPC-S	25-jul	jul-22			0.36	0.41%
FGV Consumer Confidence	25-jul	Jul			76.7	71.3
Federal Debt Total	25-jul	Jun			2959	2879b
COPOM Monetary Policy Meeting Minutes	26-jul					
Current Account Balance	26-jul	Jun	-1390		-2478.57	\$1200m
Outstanding Loans MoM	27-jul	Jun				0.10%
FGV Inflation IGPM MoM	28-jul	Jul	0.27			1.69%
Central Govt Budget Balance	28-jul	Jun	-14.8			-15.5b
National Unemployment Rate	29-jul	Jun	11.3			11.20%
PPI Manufacturing MoM	29-jul	Jun				0.58%
Primary Budget Balance	29-jul	Jun	-16.3			-18.1b
CNI Consumer Confidence	29-jul	Jul				101
Chile						
Central Bank's Traders Survey	27-jul					
Manufacturing Production YoY	29-jul	Jun	-0.5			2.10%
Retail Sales YoY	29-jul	Jun	2.8			0.60%
Copper Production Total	29-jul	Jun				473825
Unemployment Rate	29-jul	Jun	6.9			6.80%
Colombia						
Urban Unemployment Rate	29-jul	Jun	9.46	9.5		9.00%
Overnight Lending Rate	29-jul	jul-29	7.75	7.75		7.50%
Mexico						
Retail Sales MoM	25-jul	May			1.2	-1.40%
Retail Sales YoY	25-jul	May			8.6	10.60%
Trade Balance	26-jul	Jun	-688		-523.64	-527.4m
Economic Activity IGAE YoY	26-jul	May	2.12		2.19	2.99%
Unemployment Rate NSA	27-jul	Jun	4			4.03%
GDP NSA YoY	29-jul	2Q P	2.4			2.60%
GDP SA QoQ	29-jul	2Q P	-0.15			0.80%
Net Outstanding Loans	29-jul	Jun				3218b
Budget Balance YTD	29-jul	Jun				72.8b

Fuente: BBVA Research

Most recent Latam reports

Date	Description
07.26.2016	Brazil: The COPOM is still concerned about inflation
07.26.2016	Weekly Mexico: Annual growth rate moderation of GDP in the second quarter (In Spanish)
07.15.2016	Weekly Mexico: Stock indexes reached new highs (In Spanish)
07.15.2016	Peru: GDP rebounded in May, but its pace of growth will probably be more moderated in June (In Spanish)
07.15.2016	Peru: No surprises regarding the decision of the Board of the Central Bank in July (In Spanish)
07.15.2016	Chile: Central Bank stays alert: keeps interest rate and bias (In Spanish)
07.12.2016	Chile: What does the update of fiscal forecasts of the finance authorities say? (In Spanish)
07.11.2016	Peru: Public investment falls in June (In Spanish)
07.08.2016	Mexico Weekly: Employment data better than expected in the U.S. supports the peso (In Spanish)
07.08.2016	Chile: June's CPI rose 0.4% MoM above market expectations, caused by specific products (In Spanish)

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